prices and the poor

a report by the
national council of welfare
on the low-income consumer
in the canadian marketplace

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the Low-Income Consumer in the Canadian Marketplace

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INTRODUCTION

The War on Poverty in North America was launched with a mighty barrage of rhetoric a decade ago. Its primary emphasis was on improving the productivity of the poor in society. The resultant programs of education, job-creation and job-training, aimed at expanding the earning power of the poor, were often misconceived and otherwise largely ineffective. More recently, an awareness has grown that the central reality of poverty is an inadequacy of income, and that this involves more than just job-generated earnings. The result has been a new focus on integrated approaches to income needs including supplementation mechanisms to guarantee an adequate income to those who work, but earn insufficient to meet the needs of their families, as well as those who are entirely dependent on social security programs for their support.

In its various reports the National Council of Welfare has consistently asserted the right of every member of the Canadian society to a share in the national wealth sufficient to enable him to participate fully in that society. No income level taken in isolation, however, can ensure that capacity to participate. Just as income adequacy involves more than simply earnings from employment, so also it involves more than just the revenue side of the poor person's ledger. The adequacy of an income depends upon the expenses that it must be adequate to meet. A greater number of dollars is no gain at all if it buys no more than the lesser number formerly did.

Incomes in Canada have been rising. So have prices. Neither, however, has been rising in a fashion such that the

gains (on the one hand) and the burdens (on the other) are being evenly distributed. The income of the "average" Canadian taxpayer rose by 76% in the decade from 1961 to 1971. But this "average" figure masks the fact that doctors, for example, whose incomes in 1961 were already larger than those of any other group in the population, recorded a further income gain of 133% in the ten-year period - almost double the national average - while low-income groups saw the disparities grow as their sub-average incomes rose by sub-average amounts.

Moreover, the present inadequacy of the incomes available to the poor is greater even than it appears because, proportionately, the poor pay more to get less. Thus a family with income of $5,000 will not be able to buy one-third of the goods and services than can be bought by the family with a $15,000 income.

There are a range of reasons for this fact. The increase in prices caused by inflation are as uneven in their impacts as are the increases in national income, and this is one of the reasons. The self-reinforcing effects of poverty in the consumer marketplace is another. The variety of highly questionable marketing practices to which the poor, with little access to consumer education and information, are particularly subject is also a factor. And so are the constraints which poverty places on rational budgeting, denying them the options of bulk-buying at special sales and other such devices used by the more affluent to cushion the blows of the marketplace.

All of these things and more conspire to make the poor person's dollar go less far than the same dollar in more affluent hands.

INFLATION AND THE BUDGETS OF THE POOR

The story of the man who drowned trying to wade across a river whose "average" depth, he had been assured, was a mere 18 inches, is highly appropriate to any discussion of the impact of inflation on Canadian family budgets.

The Consumer Price Index (C.P.I.) measures how much prices have changed on the average for all of the items bought by a typical family. Its component indices look at price increases for specific categories of items such as food, housing, clothing, and so on. They all work on the same principle: First look at how much $100 could buy in a specified "base year" (the year 1961 is the base year that is now being used); then look at how much it costs today to buy the same things. So, the C.P.I. for food in December 1973, for example, being 172.1 means that the food that $100 would buy in 1961 costs $172.10 in December 1973. Or, in other words, the price of food has gone up 72.1% in 12 years.

The general C.P.I. is computed by looking at the indices for a number of different categories: food, housing, clothing, transportation, health and personal care, recreation and education, and tobacco and alcohol. The weight given to each category (that is, how large a part it plays in the general index) is determined on the basis of the proportion of total income spent on that category by an <u>average</u> Canadian family. As a result, the general Consumer Price Index is an accurate measure of over-all price increases for the items bought by a family of <u>average</u> income spending according to an <u>average</u>

expenditure pattern. But buying patterns (that is, what proportion of income goes towards each category of expense) vary considerably from one income group to another.

For example, according to a comprehensive study done in 1969 by Statistics Canada,[1] the lower a family's income, the greater the proportion of this income it spends on food. In a poor family's budget, food represents the largest single element of expenditure; families with incomes of less than $3,000 spent 27.9% of their income on food. On the other hand, families with incomes over $15,000 spent only 13.4% of their budgets on food. Thus, any change in the price of food will have more than double the impact on those at the bottom of the income scale than it will have on those at the top. What the C.P.I. will take into account, however, is what the "average" family spends on food - 18.7% of its budget according to the 1969 study.

Similarly, the 1969 study reported that the "average" Canadian family spent 15.2% of its budget on housing and almost as much, 13.1%, on transportation and travel. This "fact" - that Canadian families spend almost equal amounts on housing and travel - will also be reflected in the weighting of the C.P.I. And that again makes it completely unrepresentative of the reality of expenditures among the lowest-income fifth of Canada's families where housing represents three times as great a share of the family budget as transportation and travel.

In other words, looking to the general C.P.I. to tell us about the effect of inflation on low-income consumers is like relying on the assurance that the river's average depth is only 18 inches and deciding to wade across. To count the

real effect of inflation on a particular income group it is necessary to measure the right things; and that means starting with the various expenditure categories weighted according to the actual expenditure patterns of the group.

But this still will not provide the real answers. To measure the real effects of inflation on the budgets of particular groups it is necessary to look beyond the weighting of the categories and into the component parts of the categories. This can be readily illustrated in the case of food.

In January 1972 the Consumer Price Index for food stood at approximately the same level as the general index. The rise in food prices since 1961 had kept pace with overall price increases. However a change took place during 1972: Food prices began to go up more quickly than general prices. The process continued throughout 1972 and then speeded up rapidly during 1973. By December 1973 the food index was 15.7 points ahead of the general index.

In the 12 months of 1973, food prices leapt 17%. But to take this into account in computing a consumer price index for the poor by simply weighting this 17% increase in the price of food as applying to 27.9% of their budget rather than only 18.7% of it, would be to ignore the fact that people don't buy a commodity called "food"; they buy particular food items. And the increases in the prices of various food items have been very different.

Many factors can dictate changes in the price of one food item in relation to the price of another, and such fluctuations are taking place all the time. But during a period of rapid price increase a special factor comes into play - and that is known as substitution.

As the price of various products rises, most families will begin to substitute less expensive products for more expensive ones. This is particularly true for food, since there are many different products that a family could eat, and the only determining factors are preference, taste, and (of course) price. If steak prices, for example, go up sharply, many families will simply buy less steak, or buy no steak at all, and will begin to eat more chicken, hamburger, fish or whatever.

Substitution of one product for another has several results. The price of the more expensive product will increase more slowly because fewer people are buying it so demand has fallen. More importantly for our discussion, the price of the product which is being substituted will rise because demand has risen. As the price of the substituted product rises, families which have always been buying that product will, in turn, be forced to buy less of it and will make their own substitution to something further down the price scale.

This substitution process lessens the impact of price increases for many families. Perhaps they might not like what they eat as much as before, but this is merely a matter of taste. But what happens to those families who are already buying the least expensive items? What are they going to substitute? The answer, of course, is that they are faced with the alternatives of either spending a great deal more proportionally on food (a non-existent alternative where a limited budget is already fully committed) or simply eating less. This is precisely the situation which the poor must face.

The low-cost foods that have traditionally been staples for low-income families are things like hamburger, wieners,

liver, potatoes, pasta and bread. And what has happened to prices of these items? In the 12 months from December 1972 to December 1973 the price of hamburger jumped 35%; wieners went up 37%; liver 35%; potatoes 25%; and pasta 40%. Bread went up "only" 22% during the year - because of a special government subsidy to wheat farmers instituted in September. (The effect of the subsidy was to hold the price line on bread for six months - till March 1974 when it began to rise again.)

The recollection is still vivid of the week the supermarkets proudly proclaimed that the price of steak had begun to drop - while the relevant fact for the poor was that the price of hamburger continued to climb. A consumer price index that truly measured the effects of inflation on the low-income consumer would thus not only give a very different weighting to its food component, but would have a very different food component. Such a low-income index would often show a very different picture than the general C.P.I.

Another example of this can be found in the housing area. We have already seen that housing represents a substantially higher proportion of the budget of the poor family than it does of the average family. But the housing category of the C.P.I. is itself a weighted average of two sub-indices, purchased housing and rented housing. And here we find that the index for the purchase of housing has escalated far more quickly than the index for rental housing. Since the bulk of Canada's urban poor are renters, it is tempting to conclude that they have therefore been less hard hit by inflation in the housing component of their budgets than the average Canadian. But here again, it is necessary to look past the averages offered by the indices.

Necessary; but impossible. For unlike the food index, Statistics Canada's rental housing index is not broken down into component parts. There is therefore no way to separate rental housing's counterparts of hamburger and steak in order to examine them individually. The composite index we are left with includes all forms of rental accommodation, from luxury apartment units to rooms in slum tenements.

If "average" rents have not risen terribly fast because there is an abundance of upper and middle-income apartments available, what does that tell us about rental prices of low-income accommodation where the demand far exceeds the supply? If the present energy crisis results in the predicted dramatic rise in home heating costs, what will the effect of that be on rental prices in old buildings with inefficient heating systems and poor insulation? If there is a time-lag involved in "average" rents responding to inflation because upper and middle-income rentals tend to be on one, two or three-year leases, what does that tell us about the prices of low-income rentals which tend to be on a no-lease, month-to-month or week-to-week basis?

The answer, of course, is that it tells us very, very little. And, sad to say, that is what the C.P.I. generally tells us about the impact of inflation on Canada's poor: very, very little.

Governments have recently begun the practice - in the case of some, but not yet all - social security programs of indexing benefit levels to the Consumer Price Index. The National Council of Welfare has argued that such programs of income support for low-income Canadians should be escalated according to a more generous measure that takes into account real growth in the national income and not just the inflation factor. But to the

extent that all government is prepared to do at present is increase the amount of these benefits by the extent to which inflation has eroded them, it must at least base this escalation on a C.P.I. that reflects the real expenditure patterns of these low-income Canadians.

For this reason we urge Statistics Canada to begin compiling such measures. Not only should there be a C.P.I. based on the actual expenditures of those on the bottom of Canada's economic pyramid, there should be several of them. If payments under the Old Age Security, Guaranteed Income Supplement and Canada and Quebec Pension Plan programs, for example, are to be escalated to counteract the effects of inflation, then it is not enough that they be tied to the general C.P.I. as is now the case. They must be tied to an index that reflects the actual expenditures of Canada's senior citizens.

Lest it be thought that the development of such specialized indices represents an awesome task for Statistics Canada, reference need only be made to the truly awesome amount of data that it collects on behalf of Canada's corporate interests. If Statistics Canada is capable of providing statistics on footwear production, domestic water tank heaters, rigid insulating board production, and foundation garment shipments (just to name a few) it is surely capable of producing versions of the Consumer Price Index based on the real expenditures of various income and age categories of Canadian consumers.

PAYING A PREMIUM FOR POVERTY

There is substantial, well-documented evidence that the poor are charged more for the same goods and services than are the non-poor. The simplistic explanation is to attribute it all to the "fox in the chicken coop" theory: exploitive ghetto merchants, rapacious slum landlords and assorted others, gouging the poor in pursuit of unconscionable profits. While there are unquestionably many instances of greed and exploitation, this is only a small part of the answer. The full reality is substantially more complex.

The economics of poverty for the low-income consumer is a recurring cycle which, with the pull of a whirlpool, draws him deeper and deeper into its grip. For example, the fact of the limited resources of the poor results in the low-income market being characterized by factors such as lower sales volumes and slower turnovers of inventory. This makes it relatively less attractive for merchandisers and leads to the charging of higher unit prices by retail outlets in these areas. And these, in turn, bring the wheel full circle, making the poor's limited resources go even less far and thus deepening their poverty. In one form or another, this vicious circle, in which cause continually reinforces effect, can be seen to operate across a broad range of product and service markets.

(a) Food, Clothing, Personal and Household Needs

We have already seen that the food component of low-income families' budgets is substantially higher than that of other families and the greater impact that escalating food prices

therefore have on low-income budgets. In October 1973 the Gallup Poll reported that 57% of Canadian families having incomes of less than $6,000 a year had already been forced to alter their eating habits in response to rises in food prices. Since the poor were already operating on the bottom margins of the food market and therefore unable to shift to any lower market, what form has that alteration taken for families subsisting on only $3,000 or $4,000 a year? And with what consequences?

When the Nutrition Canada National Survey[2] was published recently, it was widely reported that the survey showed that the poor were no worse off nutritionally than the more affluent. In fact, no such conclusion was possible on the basis of the facts presented in that report.

Nutrition Canada has done no analysis to date of the nutritional status of families living below the poverty line. In its survey it examined some families living in areas where, in 1961, the average family income was below the poverty line. Even assuming that the income characteristics of these areas had remained unchanged through the intervening decade (a highly questionable assumption in many cases), an area having an average income below the poverty line means that more of its resident families have incomes below the poverty line than have incomes above it. It does not mean that all families living in the area have sub-poverty incomes.

In each survey area Nutrition Canada selected a random sample of families for potential inclusion in its study, but actual participation in the study was voluntary, and only 46% of the selected families chose to participate. There is a great deal of evidence that poor people are generally reluctant to

volunteer their participation in such studies and no reason to expect that this was not the case with this particular study. Until Nutrition Canada has analyzed its data in terms of the family income of those who actually participated in the survey, nothing can be known from it about the nutritional status of Canada's poor. Examining its data on the basis of income levels appears to rank very low in Nutrition Canada's priorities at present. We feel it is urgent that this analysis be undertaken immediately, and strongly urge that these priorities be re-ordered accordingly.

When this analysis has been completed, we may find that only a tiny number of Canada's poor were included in its examination and that the nutritional status of that small sampled group is substantially worse than that of Canadian families generally. For the present we know only such things as the relatively small amounts of money available for the purchase of food by the poor, the disproportionately high percentage of family income these expenditures represent, the proportionately greater consequent impact of rising food prices, and the proportionately greater need to alter eating habits as a result. And there is evidence that all of this is compounded further by the poor being obliged to pay more for the same food items that the non-poor can buy for less.

In a study undertaken in Vancouver in 1972 by political science students at Simon Fraser University, it was found that there were variations as high as 8% for groceries and 15% for meat between high-income and low-income areas of the city, even within the same grocery chain.[3] A study in Edmonton in 1969 reflected the same trend.[4] A study undertaken in Montreal in 1972 found that prices charged by the one chain store operating in Point St. Charles, a poor area of the city, were substantially

higher than those charged by all other chain stores operating anywhere in the city.[5] It also found that chain stores have substantially to moderately lower prices than local or neighborhood stores, and that it is neighborhood stores rather than chains that tend to be present in low-income areas.

For example, the study found that in Mount Royal, a well-to-do suburb, a 28 oz. can of peaches cost 46¢ at the chain and 49¢ at a local store. In Point St. Charles the same peaches cost 49¢ at A. & P. and 53¢ at a local store (a total spread of over 15%). Similarly, in Mount Royal, a 14 oz. can of peas cost 23¢ at a large chain, in Point St. Charles, 27¢ at A. & P. and 29½¢ at the local store (a spread of 30%). Comparable differences were found on a large variety of other items. At the time this study was done, A. & P. was the only large supermarket chain operating in Point St. Charles, the Dominion store in the area having closed two years earlier. In 1973, A. & P. followed suit and closed its Point St. Charles outlet.

Neighborhood stores, because they are smaller, offer less choice and, because of their lower volume of sales and slower turnover of goods, cannot make the bulk purchases that produce price savings which can be passed on to customers. What neighborhood stores do offer in low-income areas is credit. The result is that for low-income consumers, once they are in debt for one month's groceries there is no choice where they buy the next. They are locked into the same neighborhood store, using this month's cash to pay last month's bill and sustain their credit for this month's purchases.

Studies such as those in Vancouver, Edmonton and Montreal are preliminary only, and while newspapers have reported that the federal Food Prices Review Board has uncovered some evidence

of discriminatory pricing, the Board has thus far not seen fit to release this data. If the data gathered is too fragmentary to admit of reliable conclusions, the Board should immediately initiate major pilot studies in centers such as Toronto, Montreal and Vancouver to test this question. Otherwise the present evidence should be released.

In American studies which have revealed differential pricing policies, commentators have seen the explanation as lying in factors such as those cited earlier: smaller volume sales requiring proportionately higher overheads, stock wastage through slower turnover, smaller sales of higher priced meat and convenience foods with bigger markups, higher insurance costs, higher staff turnover, greater incidence of vandalism and pilferage, inability to capitalize on bulk wholesale purchase discounts and the need to provide credit facilities.

To the extent that these are the relevant factors, we are faced with stark economic truths that can only be changed by programs of income redistribution that make the poor non-poor. To the extent that the explanation for differential pricing lies in inadequate competition in the low-income food market or simple price gouging, obviously other policy responses can also be considered. These include: a more vigorous competition policy, the banning of discriminatory pricing within food chains, government encouragement of consumer food co-operatives as a counterforce in the market, and a more comprehensive and concerted attack on marketing and sales malpractices. The Montreal study referred to earlier reported that one small storekeeper in Point St. Charles openly admitted that he raised prices by 20% on the day welfare cheques were issued.

It is worth noting that this phenomenon of differential pricing policies has also been found to be present in the U.S. in the consumer durable market (such things as household appliances). For example, a 1968 study in Washington, D.C. by the Federal Trade Commission[6] showed that, on average, appliances purchased for $100 at wholesale sold for $255 in stores serving the low-income market, compared with $159 in stores serving the general market. Notwithstanding this very substantially higher markup, stores serving the low-income market were found to have a smaller return on investment than those serving the general market. Among factors considered by the Commission as explaining their findings were the high interest charges buried in the price of the goods, expensive selling methods employed (e.g. door-to-door salesmen), high debt-collection costs and bad debt write-offs. Among the additional factors which it might have considered was whether the relative unattractiveness of the low-income market to high-volume merchandisers makes it relatively less competitive and encourages inefficient management on the part of area storekeepers.

Similar studies have not yet been undertaken in Canada but, because of different racial considerations, it is doubtful if low-income markets in this country would be quite so sharply delineated. The difference, however, may only be one of degree. Such studies, examining practices in the marketing of clothing and other personal non-durables as well as durables, must be undertaken in this country. We suspect that their findings will parallel the preliminary studies of the food market cited earlier. If so, the suggestions made with respect to food retailing should be applied in these areas as well.

Large supermarkets and discount department stores tend to locate in suburban areas where land costs are lower than in

the inner city and where access to the large middle-class market is easiest. Access to these shopping centers is generally difficult, and often impossible, without an automobile; and most low-income consumers have no such means of private transportation. As a result, they are, to a very substantial extent, effectively captive to the high-price, restricted-choice, low-volume stores that exist in their neighborhood. This is most particularly the case for the aged and disabled poor whose mobility is most limited of all.

Even if such consumers are able to reach these suburban shopping centers by public transit, it is unlikely that they could return in this fashion laden with bundles of groceries. And while many stores are willing to deliver (for an extra charge) they will do so only within the adjacent area, not to distant inner-city addresses.

Limited mobility substantially limits low-income consumers to shopping in neighborhood stores - if the goods they need are available in neighborhood stores. Often they are not and this has led to a widespread marketing phenomenon virtually unique to low-income districts, the door-to-door peddler. Peddlers offering cheap-quality clothing, bedding and other household goods on high-interest credit terms are endemic in low-income areas. Because of lack of accessible alternative retail outlets, and because the availability of credit enables payment for these purchases to be extended over time, these peddlers play a very major role in the low-income consumer market.

If intelligent policy for assisting low-income consumers is to be formulated, we need to know the extent of differential pricing policies applied in this country in relation to food and in relation to consumer durables and non-durables. We also need to know whether in fact it is more expensive for established

retail and food chains to operate in low-income areas. Where chains do participate in these markets, what do they sell and do they offer credit arrangements similar to those of neighborhood stores? To what extent is the low-income market self-contained and to what extent are the poor able to shop outside their own neighborhoods? To what extent is the low-income consumer market dominated by marketing practices unique to it and reflective of the special vulnerability of the poor?

Only with answers to questions such as these can effective long-term remedial policy be developed. But the immediate responses outlined earlier can provide at least some relief. The recent surge of concern for the average Canadian consumer in the average Canadian supermarket is welcome. But the special situation of those consumers whose lack of income makes them decidedly non-average must be of special concern and the subject of special - and urgent - attention.

(b) Housing

For low-income Canadians, housing is one of the most expensive items in the family budget, surpassed only slightly by the amount spent for food. In 1969, Canadians in the bottom fifth of the income scale, and living in cities and towns with a population over 1,000, paid over twice the proportion of their income for housing that families in the highest fifth paid.

What are the poor getting in return for this large outlay of money? The answer is all too apparent: They are getting the worst housing in Canada. The Dennis Report on Low-Income

Housing[7] cited 1961 statistics showing that families with the lowest 20% of incomes were three times as likely as the average household to be living in a house or apartment that needed major repairs, twice as likely as the average family to be living in a unit that lacked an adequate heating system. There is little evidence to suggest that the situation has appreciably changed in the intervening thirteen years.

The cycle of paying more to get less - which ultimately costs even more - recurs whether the low-income family is renting or buying. Of course it should be noted that the possibility of a low-income family buying a home has become practically nil in the major urban centers of Canada. With few exceptions, this house-buying market long ago reached the point where the poor are excluded.

In 1969, according to the Statistics Canada study already mentioned, home ownership in rural areas (towns with a population under 1,000 and farms) among families with a total annual income under $3,000 was 79.2%. This did not differ much from the general rural home-ownership rate of 81.0%. The rural poor continue to be owners of their own homes (however inadequate those homes may be).

However outside of rural areas the pattern is very different. In 1969, 53% of all Canadian families living in cities and towns with a population over 1,000 owned their own homes. But among families in the bottom fifth of the income scale, only 37.6% owned their homes. In the 11 largest cities of Canada home ownership among this lowest income group was down to 23.6%. And unquestionably a very large portion of these low-income home-owners were senior citizens who had bought their homes many years ago when house prices were still quite low.

Except in rural areas and some smaller urban centers, the poor cannot realistically contemplate purchasing. And this in itself is cause for alarm, since it means that the poor's housing dollars are not going towards building even a meager equity for their families, but instead are going towards building the equity of higher-income landlords. In this way, the exclusion of the poor from the house-buying market ultimately leads towards greater income disparity.

Moreover, these trends are continuing to broaden in their impact. The virtual exclusion of the poor from the home-buying market, which began as a phenomenon limited to the big cities, is increasingly becoming the case in smaller urban centers as well. Additionally, as rising prices exclude more and more middle-income families from being able to buy their own homes, the widening gap between income classes will be accentuated, since these rising prices reflect a very considerable appreciation in the value of a capital asset accruing to a decreasing proportion of Canadians able to afford to obtain such an asset.

It is convenient to think that, in the rental market, the poor can trade off pleasant surroundings, clean units, modern facilities and the other attributes of good housing in return for a substantially lower price. The poor can, and usually must, trade off the advantages, but the price is not going to be that much lower. At least not in Canada's major cities where the vast majority of the poor live.

The problem, in its simplest economic terms, is that the supply of low-cost housing is grossly insufficient to meet demand. And the root of the supply problem is the extremely high cost of land in virtually every Canadian city. Because

of rising land costs, housing has not depreciated in value with aging. Unlike automobiles, appliances, furniture or almost any other durable commodity, there is simply no such thing as a "second-hand" house. The building may have deteriorated - but the land on which it sits has gone up spectacularly in value.

As land values rise, it becomes increasingly tempting for owners to sell and realize substantial profits. But to whom do they sell? And what will the new owners do with the property? All too frequently the new owners are much more interested in the land on which the building sits than in the building itself. It is more profitable to tear down existing older structures for the construction of office buildings or high-income apartment towers. Whole neighborhoods in almost every major Canadian city are being transformed from low-income housing to more profitable uses - profitable to the owners, but disastrous to low-income renters. For as this process goes on, the supply of low-cost housing dwindles.

Another factor is at play which is equally alarming: the passing of homes once occupied by the poor to middle and upper-income families. For many years there was widespread belief in the "trickle-down" theory - a theory that held that as the rich get richer, they leave more, and the poor consequently get more. In housing this meant that as wealthier families moved out of homes near the city core, this housing would eventually become available to the poor at a price they could afford.

However in many (probably most) Canadian cities today, "trickle-down" has ended in housing and the reverse process is taking place. As more and more middle and upper-income families react against the dehumanizing effects of high-rise

living and the inconveniences of suburban commuting, the desirability of downtown housing once left for the poor has grown. Increasingly the affluent are rediscovering the leavings of their predecessors and renovating and reclaiming them - at the expense of the poor. The phenomenon has been most noticeable in Toronto where block after block of formerly low-income housing has been converted into chic, expensive town houses.

The supply of low-cost housing which the poor can afford is becoming progressively smaller. And it is certainly becoming smaller faster than the numbers of the poor who are bidding for the housing. It is a classic economics textbook example: reduced supply and continued demand producing higher prices. The result is that the poor must bid against themselves and inevitably come out the losers.

One traditional response to the low-cost housing problem has been public housing. Public housing has usually taken the form of large complexes set either in the most undesirable urban locations or in the most inaccessible outlying locations. Many low-income families forced out of inner-city accommodation enter public housing. But a great many more are unable to enter public housing because the supply falls so far short of demand. Ultimately they settle for what they can find, wherever they can find it, "doubling-up" (two or more families squeezed into space intended for one) in inner-city housing or in the few pockets of suburbia where housing dates back to the pre-suburban days when such areas were unserviced exurbia.

The great public housing complexes which only a few years ago seemed to be the solution to the low-cost housing problem are now recognized to be a thoroughly inadequate response.

Public housing projects have too frequently proved to be "instant ghettoes" which, when not physically isolated from the rest of the community, are almost always socially cut off. Moreover, the social problems which this isolation has very often generated has made it clear that the social costs of such complexes are totally unacceptable.

Another solution to the low-cost housing problem which is frequently cited, though infrequently applied in normal times, is rent controls. It seems like a tempting alternative: restrict profits derived from rents and keep prices within the range of the poor. Unfortunately it is unlikely to work in the Canadian housing market except in a short-term situation where a large-scale expansion of the low-income housing stock is underway and the restraints are to apply only in the transitional period until the new supply situation is in effect and the rental market has adjusted accordingly.

Unless the owner has a considerable investment in a building that can only be realized over the long term, the imposition of rent control on a continuing basis will usually have two results, both equally harmful to the poor. The first is that the landlord will not maintain the building. This is fairly simple to understand: unless the owner has an economic incentive to maintain and improve his property - an incentive of healthy profits or an expected high re-sale value which he must protect - he probably won't. Legal measures can be taken to try to force owners to maintain their property - for example by the passage of Housing Codes or Maintenance By-laws. But if the owner is faced with legal sanctions, he may very well take recourse to the second common result of rent control: taking the building out of the market altogether.

In the case of a single family house (which may or may not have been converted into apartments at an earlier period),

the owner might try to find a middle-income buyer who will live in the building with his family and therefore be unaffected by rent control. Or he might find a buyer who is interested in the land but not the building, and who will demolish the existing structure. Even if the structure is an apartment building, it may still not stay in the rental market; an apartment building might be bought and converted into a condominium which, being owned by the residents, would be free of rent control.

Unless it is applied only in the short term and tied to a program for generating a major expansion in the supply of low-income housing, rent control in Canada would ultimately result in an even more reduced supply of low-cost housing. And it would mean that the housing which is available to the poor would be of even poorer quality. If the housing problem in Canada is to be solved, the solution can only come through the development of a comprehensive national housing policy. At present there is no such comprehensive policy, only a collection of ad hoc, often unrelated or even contradictory, specific programs that have been developed over the years.

To come up with a national policy we must have a great deal of additional data on housing in Canada. Specifically, we must know what low-income families can reasonably afford to pay for housing; what an acceptable quality floor for low-income housing in Canada would be; what is the supply of decent quality accommodation presently available at prices the poor can reasonably afford in each area of the country; how many low-income families in each area cannot be housed by the existing supply of acceptable accommodation in that area.

Such a study will clearly take a long time to be produced, and even longer for its recommendations to be implemented. On

the basis of what we already know, some urgently needed interim measures should be acted upon without delay.

The present housing market in Canada is essentially divided into two sectors. By far the largest is the traditional private sector which operates on a profit basis. The other is the public sector - which to date has mostly meant publicly-owned rental housing - which is heavily subsidized by government and operates at a considerable loss.

The public sector will continue to be a significant source of housing for the poor, but obviously there must be major changes in the kind of housing. Scattered-site public housing should be expanded. In existing public housing complexes a certain portion of the units (perhaps 25 or 30%) should be available for sale to the residents who live in them. This would break down the "ghetto" nature of the complexes and therefore be socially beneficial. Some control on excess profits through sale would have to be built in.

In recent years, a new sector has been emerging in the Canadian housing market - the non-profit sector. As its name would imply, it differs from the private sector in that no one gains financially from such housing after it is built. But unlike public sector housing, it is privately owned. Housing in this sector has usually taken two forms: one is non-profit housing built by private organizations (for example, church-owned senior citizens' apartments or non-profit neighborhood housing corporations) and the other is the housing co-operative (where the housing is jointly owned by the families that live in it).

The advantages of housing in this sector would seem to be considerable. The most obvious, of course, is that the costs

to the residents are based exclusively on the costs of the land, construction, interest and principal on mortgages, taxes, and maintenance; none of their money is going towards someone else's profits. In the case of housing co-operatives, the money the residents spend for housing is actually going towards building their own equity (since the residents are co-owners). An additional side-benefit of co-ops is that while the residents are building equity they do not have to individually shoulder the normal burdens of ownership (such as having to pay for maintenance out of their own personal income); this can be extremely important for lower-income families for whom a substantial repair bill that has to be paid from meager family funds could be disastrous.

The non-profit sector provides only a tiny portion of the total housing in Canada. However, in its amendments to the National Housing Act, the federal government has realized the importance of this sector and has instituted some programs to assist it. This is an excellent beginning, but much more has to be done if the non-profit sector is to have a significant impact on the housing of Canadians. The funding of programs that provide start-up funds, low-interest loans (with some portion of the loans being forgiven - that is, actually a grant) and technical assistance must be greatly increased.

A significant new feature of the NHA amendments is rent-subsidization, based on family income, for low-income families living in co-ops and other non-profit housing. This is also a good beginning, for without such a rent-subsidization program housing in the non-profit sector would primarily be of assistance only to moderate-income families (including, perhaps, "upper" low-income families). The reason is once again simple economics. A non-profit housing corporation or a co-op cannot operate over

the long term at a loss; it would go bankrupt. So the charge per unit must be based on the actual cost of the land, construction, the principal and interest on the mortgage, taxes, and maintenance. Sky-rocketing land and construction costs in particular mean that the monthly charge per unit must still be quite high - too high for most low-income families.

The only way in which the non-profit sector will be able to house large numbers of poor families is if it receives some subsidy from government to make up the difference between what the family can afford to pay and what the unit actually costs. And this is what the program of rent-subsidization is designed to do. This rent-subsidy program, however, operates as part of the federal-provincial cost-sharing arrangements, and each province must therefore approve its implementation before it can take effect in that province.

It seems clear that the non-profit sector will play an increasing role in Canada's housing market. What is not yet clear is the extent to which the poor will be able to benefit from this. If the non-profit sector is to play a significant role in providing low-cost housing for low-income families, the various provinces must implement this rent-subsidy program in a substantial manner. At present only a few provinces have indicated an interest in doing so.

By tying a subsidy program to the non-profit sector, there is an absolute guarantee that no part of the subsidy will go towards the profits of landlords. This is a crucial feature since it would be totally unacceptable for public money to be used for increasing already considerable private profits. In this context it should be noted that under existing provisions of the National Housing Act, co-ops receiving assistance under

the Act cannot be sold to realize profits to individual owners; all profits from sale must be reinvested in additional housing or some acceptable charitable purpose.

The question of a large-scale shelter subsidy program that would make direct payments to families on the basis of their income is more difficult. Although a direct subsidy program might provide some short-term relief for the poor, in the longer term it would simply have the effect of raising the ante in the same bidding game. Only if the supply of houses were consequently expanded could such a program be effective; otherwise the increased demand would only drive up prices and once again leave the poor out of the buying market. The same would apply to the rental market; the poor would still be bidding against each other for the same limited supply of rental housing and rents would therefore rise across the board. In both cases the poor would be left in the same relative position they now are in. Only the profits of builders and landlords would be increased.

A further factor to be kept in mind when programs of subsidization for designated purposes are considered is that such forms of income supplementation run directly counter to the corcept of individual responsibility inherent in general income supplementation programs. In other words, if a family's monthly income is $50 less than its monthly needs, is it not preferable to simply provide this amount of supplementation to be applied as required by the family toward meeting its needs? It may be that it will be applied entirely to shelter costs or it may be that a portion will be applied to food or clothing costs. To provide designated supplementation is to return to the archaic concept of "voucher welfare" in which a certain number of dollars could be spent only on food, a certain number

only on clothing, a certain number only on shelter. Shelter subsidies are a voucher-type, band-aid approach to guaranteeing all Canadians an income that is adequate to their needs.

The housing problem facing Canada's poor is not going to go away overnight. Even the most enlightened national housing policy, realistically founded in the complex realities of the Canadian housing market and implemented with the greatest of dispatch, will take a number of years before its effects are fully felt. In the interim, the measures we have suggested can alleviate the situation somewhat for Canada's poor - or at least arrest the rate at which it presently grows more acute.

(c) Credit

Two factors have played a particularly important role in heightening the agony of the poor in their role as consumers in the "affluent society". First, the message of the revolution of rising expectations has been dramatically conveyed into the living rooms of the nation. Every modern marketing method known to sophisticated advertising and promotional technicians has been employed to convert those who might have been happy with a simple, relatively non-materialistic existence into accepting society's regime of material values - and to produce feelings of failure and inadequacy in those who cannot realize them.

Second, the massive availability of consumer credit since the last World War has provided the means by which many consumers have entered the mass consumption society. Consumers are exhorted and sometimes virtually compelled to "charge it" and enter the world of credit buying. A recent survey by the National Anti-

Poverty Organization found that fully half of the heating oil companies operating in the Ottawa area would not make a delivery for cash payment, insisting on the opening of a charge account. "Chargex makes the whole world a giant department store", says the bank's advertisement. But we have already seen some of the ways how, for poor consumers, credit is all too often a last-ditch form of income supplement in the daily battle for survival. Shackled by insecure employment and low and uncertain incomes, credit has in many cases brought, not material well-being, but fraud, deception, over-commitment and heart-break. The path into the "affluent society" has too often proved an endless road of debt, default, bill collectors, repossessions and bankruptcy.

Consumer credit obviously serves a legitimate function among consumers on a rising income. They can quite rationally finance present needs out of future income, levelling out peaks in needs and resources, and maximizing satisfactions from resources over a lifetime. However, in the case of consumers on relatively fixed incomes, or unstable incomes, these considerations do not hold. Where income is fixed, the interest on consumer credit must ultimately eat into spending power. To maintain spending power at a constant level, a low-income consumer is forced to go deeper and deeper into debt.

The most commonly advocated legal responses to problems of over-commitment are debt-counselling programs, wage-earner plans which provide for the consolidation of debts and gradual payment in whole or in part over an extended period of time, easier access to bankruptcy, restrictions on interest rates, and restrictions on creditors' collection remedies.

Debt-counselling programs, if widely accessible and imaginatively and sympathetically administered, serve a valuable

function. Such programs should be expanded from their present very limited availability. But like so many social services they are not only too little, but also too late. More effort needs to be made to provide counselling when credit is applied for, rather than when default occurs. At this point there is often very little that can be done.

Wage-earner plans, easier access to personal bankruptcy and restrictions on creditors' collection remedies all essentially involve placing limits on the circumstances in which a creditor can use the conventional legal remedies to collect his debts and will be discussed together on that basis.

Looking first at proposals for restrictions on interest rates, we find these advanced as a response to the much higher interest the poor are charged for credit compared with the rates at which it is available to other consumers. While prime consumer credit risks can borrow from banks at around 12% per annum or from credit unions at rates of about 10% per annum (after the members' rebate has been applied), low-income consumers are forced to borrow from small loan companies at rates as high as 24% or more, or from loan sharks where rates may run to 500% or more.

The pattern of rate regulation in Canada is so uneven as to raise serious questions as to its rationale. Banks (which occupy 37% of the consumer credit market) and sales acceptance companies and retailers providing credit facilities (which together occupy a further 25% of the market) are not subject to any rate regulation. Credit unions in some provinces are subject to a ceiling of 12% per annum and small loan companies (representing 16% of the market) are also subject to rate ceilings under the federal Small Loans Act - but only on loans under $1,500.

While a variety of commissions of inquiry and individual commentators have called for a raising of the $1,500 figure in the Small Loans Act to a figure such as $7,000, so that more loans are covered by it, this could prove a futile - or even a counterproductive - gesture.

There is almost no evidence that the imposition of rate ceilings enables a high-risk borrower to obtain the same quantity of credit as before the ceilings, but at cheaper interest rates. If legislation fixes ceilings above market rates it has no effect on the rate. If ceilings are set at market rates they are likewise redundant. If ceilings are set below market rates, one of two consequences is likely. The first is that credit will simply become unavailable to the poor who, because of their low and insecure incomes, are seen by lending institutions as being higher risks. Alternatively, if their need is such that they have no choice, the poor will be driven into the illegal money market of the loan shark where interest rates are staggeringly high and where the baseball bat replaces the writ of seizure.

Because money is so fluid a commodity, illegal moneylending is virtually impossible to police. There have been fewer than 20 prosecutions under the Small Loans Act since 1939. Indeed, in the U.S., loan shark fronts have been found lobbying for <u>lower</u> interest ceilings in Small Loans laws, knowing that these would drive business into their hands.

The only circumstance where rate ceilings could have a major beneficial impact is where a small number of large lenders control the high-risk consumer credit market and are using this power to exact abnormally high rates of return on their loans. With the increasing domination of the Canadian consumer

credit market by a handful of banks and very large finance companies, this danger has become a very real one. A careful analysis of the structure of the consumer credit market must be undertaken to establish whether there are monopolistic practices being engaged in by a small number of large lending institutions and, if this is the case, whether these could be brought to an end by a broader application of rate ceilings, or whether these would simply cause lenders generally to cease extending credit to the poor, forcing them into the hands of loan sharks.

Establishing the solid facts of this market situation is an urgent necessity. The finance companies, when challenged that they encourage over-commitment, seducing low-income consumers into borrowing money they don't need at rates they can't afford, deny this by pointing to a bad debt write-off ratio of only 2% of total loans. On the other hand, when challenged to justify rates often as high as 24% or more - twice that of banks and credit unions - they offer justification with heart-rending tales about the high risks of doing business. The annual reports of the federal Superintendent of Insurance on the Small Loans Act, which offer what little data is now available, disclose that one out of four consumer accounts with small loan companies is one month or more in default. The finance companies point to this as evidence of how high their collection costs are, even if ultimate write-offs take place in only a small percentage of cases. They also point out that banks make loans from the money of their depositors, on which they are paying very little interest, while finance company loans are made with money they have had to borrow from banks at full interest rates.

Indeed, it may well be that the banks, using depositors' money on which they are paying little or no interest (depending

on the nature of the account) and limiting their lending to prime-risk clientele, are as guilty as the finance companies of creating the present untenable situation for low-income borrowers. In fact, they may be even more so, given the high degree of concentration in a banking sector limited to such a small number of very large institutions. At present there is no way of ascertaining the portion of a bank's profits that are attributable to its consumer credit operations.

Just as the traditional conservatism of Canada's banks led them to enter the consumer credit market very late, it may be that this same conservatism has caused them to fail to enter the low-income credit market in a significant manner. In other words, it may well be that the banks are dominating the consumer credit market and excluding the poor from all but its margins because of their unwillingness to "take the chance" of dealing with them. If this is the case, though the motive may be mere conservatism the result is clear discrimination.

A hopeful indication that this may be changing can be found in the recent decision of one bank to establish "Store-Front Community Branches" in low-income areas of Montreal, Toronto and Winnipeg. The bank makes clear that it does not see this initiative in terms of charity - it intends and expects these branches to make a profit. They will just do so through a somewhat different operation - making more small loans and less big ones, for example.

For some time now it has appeared that the credit unions in Canada had forgotten the role of their origins - serving the credit needs of the low-income consumer. Recently there have been a few hopeful indications that this too may be changing.

In British Columbia the Central Credit Union, formed by 11 regional credit unions, has begun a test program of extending loans at 6% interest to low-income borrowers. In Winnipeg a local credit union, with the support of the provincial Co-operative Credit Society, has launched a program of prime-rate loans on the security of income tax rebates and unemployment insurance entitlements for low-income consumers who were formerly being driven to discount these at substantial losses. In Saskatoon that province's Co-operative Credit Society is supporting an experiment in launching a "poor people's credit union" in cooperation with local low-income organizations.

It is time we found out what the reality of the low-income consumer credit market is, and were able to get about the business of formulating solutions based on solid data. It is not necessary, however, to wait for the results of such a study to make a beginning. The need of government action in some areas is already abundantly clear:

(a) Incentives should be developed - including consideration of special tax treatment or government subsidies - to encourage credit unions to recommit themselves to serving the credit needs of the low-income consumer. Needless to say, such action on the part of government must be accompanied by a readiness on the part of the credit union movement to re-examine itself. Specifically it should consider whether its membership fee and deposit requirements, purpose-of-loan and security requirements, and middle-class managerial attitudes generally have not deflected it from discharging the significant social function for which it originally came into being.

(b) The proposals of the Joint Committee of the Senate and House of Commons on Consumer Credit in 1966 and the Special Senate Committee on Poverty in 1971 to create government or government/industry programs to provide subsidized or guaranteed low-interest loans to low-income consumers for essential requirements should be implemented without further delay. Such schemes already exist in various forms for farmers, fishermen, students, Indians, home purchasers and others, and their extension to poor consumers would not represent a novel initiative.

The program will need be sympathetically and sensitively administered, hopefully through decentralized community agencies. Two dangers must be avoided and, since avoiding one could lead to the other, a great deal of sensitivity and skill will be necessary at the local level. First, it must not become a supplementary welfare program, making loans for special needs at the program officer's discretion. The humiliations long endured by welfare recipients pleading for discretionary allocations from their welfare officer are increasingly becoming a thing of the past as the principle of defined allowances available as of right replaces discretion in social assistance. They must not be reborn in the administration of this loan program.

At the same time, care will need be exercised to ensure that the loans provided by the program are not just greasing skids for a descent into unmanageable debt. Loans should be made where there

is a realistic plan and prospect for their repayment. Where an individual or family's situation is such that there is no real capacity to repay even the lowest of interest on a loan, then there is a need for grants of assistance, not for credit.

(c) Require all consumer credit grantors to disclose their true annual interest rates in all advertisements. Surely potential consumers of credit have as much right to know what they are contemplating getting into as cigarette smokers now do.

(d) Consider regulating the volume, form, and aggressiveness of credit advertisements, as the Quebec Minister of Financial Institutions has recently proposed, so that the hard-sell with which consumer credit is now being marketed is tempered, and greater consumer circumspection encouraged.

(e) End discriminatory practices which now cause married women to lose their independent credit rating and acquire that of their husband. This form of discrimination is clearly repugnant to any tenable concept of individual rights. Deserted and separated wives in particular are the victims of such practices when they find themselves saddled with the deadbeat credit rating of their missing husband while their own unblemished record is ignored.

Turning now to the question raised earlier of restriction of creditors' remedies, we face some familiar economic constraints. If remedies are restricted, a point is sooner or later reached where it is no longer economical for a creditor to extend credit which he has no reasonable probability of collecting. Either the high-risk consumer is closed off from credit altogether, or he is forced into the illegal money market. For example, in Pennsylvania after garnishment of wages was abolished, creditors began selling debtors' houses at sheriffs' sales instead. A more draconian and expensive remedy had been unwittingly promoted through the abolition of a harsh, but less severe, one.

Temporary relief from the consequences of over-commitment can be extended through legislative action making bankruptcy more accessible, restricting collection remedies, and promoting wage-earner plans. But it is difficult to be optimistic about the long-term effects of such policies, because the consequences of over-commitment which we find so repugnant are produced by the fact of poverty itself. Only income-redistribution programs that remove that fact will, over the long run, remove the personal and social costs of overbearing debt.

(d) Utilities

Utilities are of many kinds. Some are privately owned and some are publicly owned, but all have certain characteristics in common. All represent services that are seen as being of so essential a nature that they have been given a public character as government-regulated monopolies. The services they provide range from telephones to electricity to public transit.

If there was but a single consumer area in which one would expect to find no discrimination against the low-income consumer,

surely it would be this one. But in fact, the poor pay more to get less from public and quasi-public utilities as well.

Because they are judged to be higher credit risks, security deposits of varying amounts are required from the poor as a matter of routine by telephone, gas and electricity companies. To be required to pay, for example, a $100 deposit in order to get the gas or power connected in a new apartment places a major burden on a poor consumer. And requiring this only of the poor consumer is to place such a burden only on those whose shoulders are least able to bear it. Couple this power to selectively demand such a deposit with the ability of these utilities unilaterally to invoke self-help debt-collection remedies by cutting off the service without having to prove the existence of the debt like other creditors, and the poor are almost totally at their mercy.

Newspapers in 1972 reported the case of an elderly woman in Toronto whose power was cut off in mid-winter for non-payment of her bill and, as a result of the cut-off, died of exposure in her unheated home. While the publicity given to the action of the utility in this particular instance was uncommon, the instance itself was not. In 1972, Gaz Metropolitan, for example, cut off the gas in 3,000 Montreal homes.

With public utilities, some remedies are readily at hand. For one, the discriminatory application of a security deposit requirement should clearly be banned. Last year a decision of the British Columbia Supreme Court ended this practice by B.C. Hydro, holding that the authority to discriminate between members of the public could not be taken to exist for a public utility unless it had been specifically granted by the Legislature. The British Columbia Court's view of such

discrimination as contrary to the concepts of equity and public service which should govern utilities designed to serve public needs is equally true for other utilities and other parts of Canada. Needless to say, the end to such security deposits must not be permitted to lead to their being replaced by a refusal to serve low-income customers.

With respect to cut-offs of service, U.S. courts over the past two or three years have increasingly insisted that creditors' self-help remedies be subjected to judicial review and the requirements of due process, as are other creditors' remedies. An application to a court for a cut-off should be required, and granted only on a demonstration by the utility that the consumer is able but unwilling, without justification, to pay.

As indicated earlier, utilities are of many kinds, and in some cases they may have a great deal in common with things that are not regarded as utilities at all. Thus public transit, for example, is regarded as a utility while roads for private transit are not. But they perform parallel functions and the means by which they are respectively financed represents another form of discrimination against the low-income consumer.

For many years our transportation systems have favored the production of expressways over public transit. The cost of building these motorways has been borne by all taxpayers, low-income as well as high-income. But very few low-income consumers own their own vehicles - only 22.7% of those in the bottom fifth of the income scale compared to 92.2% in the top fifth. Thus low-income taxpayers bear a double burden of transportation costs. They are taxed to finance roads they cannot drive on, then charged on a fee-for-service basis

for use of the public transit that is their only means of mobility.

Arguments for a shift in transportation priorities from the building of expressways to the provision of low-cost or no-cost transit systems have, to date, centered on quality-of-life considerations. The further argument of equity between low-income and upper-income consumers should also be heard in this debate.

* * *

Housing, food, credit, utilities. These few examples, each very different, and yet depressingly similar in their result. Many other examples could be offered, but the point has hopefully been made: Directly or indirectly the effects of poverty reinforce the circumstances of poverty and the vicious circle continues. The poor pay more because they are poor; and because they are obliged to pay more they are made even poorer.

In each of the product or service areas we have examined to illustrate this phenomenon, we have offered some suggestions as to regulatory interventions which could be made by government to mitigate the problem. None of these suggestions can achieve more than this modest objective. The circle can only be broken if the poor are made non-poor. There are some "foxes in the chicken coop" and government action can drive them out. But the poor are exploited as consumers and obliged to pay a premium for their poverty for reasons which overwhelmingly are curable only by programs of income distribution which will guarantee them an income adequate to enable them to participate as consumers in the Canadian society on the same basis as other consumers.

MARKETING METHODS AND CONSUMER INFORMATION

The function of marketing is to sell, and the harder the market the harder the sell. Separating the poor from their few dollars is not easily done, but an appalling range of high-pressure, fraudulent marketing, credit and collection tactics have been developed to do it. Misleading advertising, bait and switch, substitution of inferior merchandise, concealment of defects, fraudulent home-employment schemes, the selling of encyclopedias to poor people in ways which exploit their feelings of personal inadequacy, illegal repossession and collection practices - all abound, apparently scarcely checked by law enforcement authorities. The complaints files of Consumer Protection Bureaus, Better Business Bureaus, and newspaper hot-lines bulge with countless examples of such frauds and malpractices.

That these are not the exclusive prerogative of fringe operators in the market is highlighted in the recent Retail Food Stores Survey conducted by the Food Prices Review Board. The survey found that purportedly reputable retail chains were engaging in practices such as double-ticketing, advertising specials when only a very limited supply was available (a form of bait and switch), end-aisle displays showing prices different from prices on the same products on the shelves, red lights over meat counters to "improve" the appearance of the meat, obscured cash register windows, misleading price signs, exaggerated price claims and confusing proliferation of package sizes. Had the Board chosen to investigate further it might have been able to add to its list some of the anti-competitive practices behind retail pricing, such as fees for stocking a manufacturer's products, advertising rebates for listing them

on "special", quantity discounts, end-of-aisle display fees, and shelf-space rentals - all of which squeeze out small manufacturers in favor of larger ones who can meet the retailers' ante.

Cumbersome, ineffective licensing systems, often inadequately staffed and poorly policed, provide few safeguards against marketing abuses, and do nothing to compensate a consumer who has been cheated. Heavy reliance on criminal sanctions has proved equally ineffective. Law enforcement agencies have been aware for years of a variety of frauds in the used-car trade, for example. Yet, to date, they have been quite unable to stop mass dealings in fraudulent certificates of mechanical fitness and until recently had been unable to make any impact on the almost routine practice of winding back car odometers.

Criminal statutes invariably spell out a very limited range of malpractices, and once new malpractices surface, consumers have to wait for the legislative process to grind out new offences. For example, the proposed amendments to the federal Combines Investigation Act, prohibiting certain malpractices, have been three years in the making. Meanwhile, the fast-buck operators have moved in and cleaned out many markets and moved on. Also, the criminal law is a blunt, slow-moving, after-the-fact instrument, and, like licensing, doesn't get a cheated consumer his money back. What is needed is open-ended statutes where new malpractices can be added by regulation as soon as they appear, fast-acting remedies like cease and desist orders issued by consumer protection officials without waiting for a criminal trial, and mass restitution remedies which a court can order to ensure that a rip-off artist is not only stopped for the future but must recompense all consumers who have suffered losses in the past.

Other administrative orders should also be available. For example, the U.S. Federal Trade Commission can order a merchant guilty of misleading advertising to publish corrective ads to remove false impressions created by the earlier ads. Also, the F.T.C. can order advertisers to submit and publish the data on which they based specific advertising claims - a particularly salutary sanction for those otherwise inclined to treat the truth lightly.

In the misleading advertising field, the federal government in its recently proposed amendments to the Combines Investigation Act, has, under business pressure, abandoned its attempt to move from an "average" man test to a "credulous" (or trusting) man test for determining when an ad is misleading. This is clear encouragement to fringe operators in the marketplace, who make illicit profits by preying on the susceptibilities of the poor and uneducated, to continue to do so. It is little more than the grant of a license to steal from the weaker members of our society to allow such operators to plead that a person of more refined susceptibilities would have seen through their frauds.

Informal, accessible, inexpensive, and highly visible grievance-solving mechanisms are desperately needed. A study of 100 randomly surveyed consumers, undertaken in Toronto in 1972, found only 31 had heard of the Ontario Consumer Protection Bureau and of those 31, only 16 knew where it was located. Of the 100 surveyed, only 12 had heard of the federal government's Box 99 and of those 12, only 2 knew where it was located.[8] With low-income consumers, the information level is almost certainly lower again than these figures.

Much more effective individual redress mechanisms have to be developed. Small Claims Courts, located in store-fronts in

prime-shopping areas, low-income areas and high-density tenant areas should be set up. These should sit at night, dispense with lawyers and other formal trappings, and resurrect and revitalize the concept of a "people's court" which they were originally designed to be. Arbitration committees, which could rule on grievances submitted simply by letter should also be considered. Consumer class actions, scarcely possible in Canada at present, should be permitted as a means of providing mass relief and as a deterrent to those who are not prepared to live by acceptable norms of commercial conduct.

For the poor, educational disabilities which frequently exist carry a heavy cost in a marketplace where the choices multiply at bewildering speed and where products and services become more complex daily. As Ralph Nader has said, the only way that a consumer can make an informed choice today is "to train himself as a mechanical and structural engineer before he buys a car, to carry a spectograph when he buys home appliances or a geiger counter when he buys a T.V. set."[9] The information differential between producers and most consumers is now huge, but with low-income consumers, it is even greater - another special disability of poverty.

Too often in the past the question of consumer information has been confused with consumer education. Consumer education has traditionally had a home-science orientation with advice on how to cook, shop, budget, and so on. Even the more contemporary consumer courses in the schools have tended to exhibit a somewhat bland and detached character, making little attempt to engage the students in actual market settings. Most features of the modern marketplace have been regarded as givens, and an aggressively critical attitude to unsatisfactory features

not strongly encouraged. Moreover, these courses have often been given only in upper grades and thus not reached the many young people from low-income families who had already dropped out of the school system by this point.

The Canadian Consumer Council, in its 1972 report on consumer education, expressed strong reservations about the effectiveness of the kinds of consumer courses presently being given in schools. The Council also found a much higher level of effectiveness among programs sponsored by community or citizen groups. Among the Council's recommendations was a proposal that the federal Department of Consumer and Corporate Affairs set up Consumer Resource Centers in communities. The Department has begun to act on this recommendation; but, in relation to the poor, and probably to most consumers, it does not go nearly far enough.

The suspicion the poor entertain of alien agencies implanted in their neighborhood by outside authorities and often staffed by people from other neighborhoods and social classes, is well-known. To reach the poor, the agency must be one they can trust and identify with. This is something which the Consumer Affairs Department seemed not to realize initially, and it is only recently that it has begun to utilize existing community organizations in setting up Consumer Resource Centers.

That such centers be community-based is important, but that alone is not enough. The next essential is that the information available from these community agencies be hard-headed, concrete and relevant. Most consumer brochures presently published by government, and by voluntary consumer associations, tend to be statements of "golden rules" in buying a car or obtaining credit, or whatever. What most

consumers would like to know is _who_ are the reliable car dealers (and who are not), _where_ are interest rates lowest, _where_ is food cheapest, _what_ their legal rights are in specific situations, _what_ agencies are available to help them, and _how_ to go about obtaining redress when they have been victimized.

Moreover, the impact of such information on the market itself is likely to be beneficial. Studies conducted in Edmonton in 1968 and 1969, for example, showed that when comparative food price information was widely disseminated, consumers reacted to it, and their behavior in turn significantly influenced the pricing actions of the firms in the market.[10] In Hawaii, after consumer groups first started to publicize price surveys, prices dropped an average of 4% in the first four months; and in Washington, D.C., the highest-priced chain in a published survey quickly dropped its prices.[11]

So far, the Food Prices Review Board has shown no inclination to perform this service for Canadian consumers. The Ontario Ministry of Consumer and Commercial Relations has gathered comparative food price information, but refuses to release it, on the grounds that consumers might be "misled" by it. By contrast, the Commissioner of Insurance in Pennsylvania reports that comparative information on life insurance coverage and consumer credit terms which he widely disseminated through the state has significantly influenced market behavior - to such an extent that two insurance companies which showed poorly on the published list withdrew their policies and redrafted them.

In addition, much more vigorous use needs to be made of television in communicating information such as the above to

consumers. For the poor, it is often the only communication from outside their neighborhood which they receive. Community and ethnic newspapers also need to be more fully utilized. Finally, means have to be found to remove access barriers to existing information. Product-testing reports of the kind published in Consumer Reports and the Canadian Consumer cost money to acquire. Private information agencies, such as Rentex which provides listings of available rental accommodation in certain areas, also cost money. Governments possess a great deal of information gained through their own purchasing and research programs which only a totally irrational obsession with confidentiality prevents being made available to the consuming public.

Consumer protection bureaus should publish not only the general statistics they now release, but the specific information that can enable consumers to act on their reports. It is interesting to know, for example, the number of complaints received by a bureau about used-car dealers; but the information that would make a difference for consumers about to buy a used car is <u>which</u> dealers the complaints were about. It is not without precedent for a government consumer protection agency to provide this sort of specific information, naming names and letting the public know the facts that fill its files - the government agency in the Australian State of Victoria does exactly that. Consumer protection bureaus in Canada should adopt the practice of publishing such information, and publishing it on a frequent and prominent basis.

What is needed is a whole new attitude toward the consumer's right to know. As long as the attitude of governments is that what happens in the consumer marketplace is primarily a private matter, the consumer will continue to be at the mercy of marketing

organizations. And the poor consumer, with least access to information, will be most helpless of all.

CONCLUSION

Among the most commonly heard, most paternalistic, and most irrelevant suggestions for dealing with the problems of the poor as consumers is that they should budget their money more efficiently. In effect, the suggestion is that, by doing their sums differently, two and two could be made to add up to five. The fact is that not only can two and two never be made to equal more than four, but that the poor haven't even the opportunities of the more affluent to stretch their money as far as it might otherwise go.

The non-poor can make savings by volume purchases when goods are on special sales. The poor do not have the extra cash needed to take advantage of such opportunities.

The non-poor can trade in an old car on a newer one, knowing that, over the long term, they will save more in lower maintenance, gasoline and insurance costs than the initial outlay for the newer model. The poor, if they are to have a car at all, can afford only the modest outlay required for the older car.

Moving costs are seldom a major factor for the non-poor in choosing their accommodation; longer-term considerations such as access to employment and shopping markets, services and schools are far more likely to prevail. For the poor, the cost of the move may be the only factor that can be considered.

Optical, dental or legal services may be required immediately by the poor, but if the money to pay for these services is not available they will often need be foregone,

although the result is that the problem becomes more difficult and expensive to resolve later. While none will dispute that a stitch in time may save nine, the advice is irrelevant if there is no capacity to obtain the timely stitch.

The government-assisted low-cost lending program advocated earlier could play an important role in bringing to the poor access to the various product and service markets, such as those cited, where immediate cash barriers block entry and foreclose the most economical long-term options.

Middle and upper-income consumers are able to build "cushions" into their lives that protect them, in many cases, from the whims of the market, or off-set the financial consequences of a major change in their circumstances such as a death or illness in the family or a loss of employment. They may have savings to fall back on, insurance policies that can be surrendered or borrowed against, an equity in a house that can be mortgaged, recourse to reasonably priced consumer credit, job qualifications that can be drawn on to take on additional employment in lean times, spouses with job qualifications who can work if necessary, better quality clothes, cars, appliances and furniture whose replacement can be more readily postponed, friends who can provide free advice or even services if necessary. A larger home which does not dictate a move when a new child arrives is another "cushion".

Few of these "cushions" are available to the poor. Both as producers and as consumers, they are at the mercy of the vaguaries of the market every day of their lives. Often also, creditors will be more lenient with middle or upper-income consumers who find that they need to miss payment of a bill for a month or two, than they are with low-income consumers in similar circumstances.

So the non-poor enjoy not only the ready cash with which to budget economies, but a variety of built-in supports to sustain their situation even when their foresight has not. For them to call for the poor to improve their lot by better budgeting is to add ironic insult to the multiple injuries of poverty.

On the first page of this report we set out the simple fact that the balance of the report has sought to demonstrate: that in a variety of ways, and for a variety of reasons, the poor are obliged to pay more and get less. The areas covered in the report have been merely illustrative, not exhaustive. Much, much more could have been said. We hope, however, that this report has done several things.

First, we hope it has indicated a substantial number of measures - with respect to marketing, housing, credit, information and so on - which could be enacted immediately in the interests of all consumers but with particular benefit to the poorest of consumers. Second, we hope we have indicated a number of areas in which detailed information must urgently be assembled if further measures are to be taken on a sound basis.

Beyond this, however, we believe that what our examination has shown is that while all of these initiatives can alleviate the plight of the low-income consumer, the root cause of much of his disadvantage in the marketplace lies in the circumstances of poverty itself. As long as poverty is permitted to exist, its effects will continue to reinforce its causes. Only when income adequacy has come to exist on the revenue side of the poor family's ledger will consumer equity be fully possible on the expenditure side.

SUMMARY OF RECOMMENDATIONS

The following are the recommendations made in this report and are set out in the order in which they appear in the text. Their sequence therefore reflects the organization of the material discussed in the report and is not intended to indicate their relative priorities.

1. The National Council of Welfare believes that benefit levels of social security programs should be escalated according to an index which takes into account the real growth in the national income and not just the inflation factor reflected in changes in the cost of living. To the extent that governments have presently indicated a willingness to tie benefits only to a cost-of-living index, the National Council of Welfare contends that this must be an index of the real cost of living of the groups covered by these programs. We therefore call for Statistics Canada to begin compiling cost-of-living indices based on the actual expenditures of low-income families and of particular low-income groups such as the aged to replace the unrepresentative "average" measurements now being applied.

2. The National Council of Welfare is concerned about the nutritional status of Canada's poor and believes that the low priority which Nutrition Canada has accorded to analyzing its data in terms of the income levels of those surveyed reflects a totally unacceptable lack of concern for the needs and problems of those living below the poverty line. We therefore urge that these priorities be re-ordered and that the analysis of the

nutritional status of Canada's poor by Nutrition Canada be carried out on an immediate and urgent basis.

3. The National Council of Welfare regards the evidence that stores serving low-income markets charge more for the same goods than those serving upper and middle-income markets as highly disturbing. We believe that this phenomenon can be dealt with, in part, by the pursuit of a more vigorous competition policy by government, including encouragement of consumer food co-operatives as a counterforce in the market, and a more comprehensive and concerted attack on marketing and sales malpractices. We also believe that a thorough and comprehensive study of practices in the marketing of food and clothing and other personal non-durables as well as household durables must be undertaken in order to establish the full nature and extent of differential pricing and marketing practices applied to low-income consumer markets. This study should serve as the basis for the development of realistic long-term policies to ensure against such practices in the future.

4. Canada's low-income families are faced with a housing crisis of serious and worsening proportions. To deal with this fully will require a cataloguing of the extent of the deficiency of adequate accommodation in every locality in Canada and a policy response that is both sufficiently comprehensive and sufficiently flexible to be directed at the array of needs that are found to exist. Among the steps which can immediately be undertaken, however, are an increase in the funds and technical support provided to the non-profit sector of the Canadian housing market, and rapid

implementation of the program of rent-subsidization within this sector. Within the public housing sector there should be an increased emphasis on scattered site public housing rather than large scale complexes and within such existing complexes consideration should be given to the sale to residents of a portion of the units.

5. Low-cost consumer credit is not now available to Canada's poor, and the high interest charged for what credit is available to them further traps them in their poverty. To fully explore the reasons for this will require an examination of the roles played by each of the classes of financial institutions participating in the consumer credit field. The National Council of Welfare believes that a public enquiry, which probes behind the corporate curtains which now hide the facts necessary for intelligent policy development by government, should be launched without delay. It also believes that a range of measures can be instituted immediately on the strength of what is presently evident. These include the provision of special incentives to credit unions to increase the availability of low-cost credit to the poor, and the initiation of a government or government/industry program of subsidized or guaranteed low-interest loans for low-income consumers. All consumer credit lenders should be required to disclose their true annual interest rates in all advertisements and such advertising should be closely regulated. Credit practices that discriminate against married women should be prohibited.

6. Utilities, whether publicly owned or privately owned and publicly regulated, represent essential services and

discriminatory practices, such as the selective requirement of security deposits, must be prohibited - and not be replaced by a selective refusal to provide services. Cut-offs of services by such utilities should not be permitted except by application to a court and demonstration that the customer is able but unwilling to pay.

7. The National Council of Welfare regards the present heavy reliance by government on licensing systems and criminal law sanctions as demonstrably inadequate as safeguards against unscrupulous marketing practices. We urge governments to adopt the use of more flexible approaches such as open-ended statutes under which the list of prohibited practices can be added to by regulation, and cease and desist orders issued by administrative action. We believe that a more vigorous approach to requiring truth in advertising must be pursued by government in order to ensure that those with least access to information are not deliberately mislead, and that the test must be whether a credulous person would be misled, not just an "average" one. Access to redress can be increased through more effective and more accessible small claims procedures, through provision for consumer-class actions, and through mass-restitution remedies. We believe also that there must be a wholly new attitude toward the consumer's right to know, implemented through vastly improved and re-oriented programs of consumer education and new, media-based and community-based, approaches to consumer information.

8. The National Council of Welfare believes that all of these measures can contribute in important ways to

the alleviation of various of the special disadvantages suffered by low-income consumers, but that the root cause of the vulnerability of the poor as consumers lies in the circumstances of poverty itself. This can be remedied only by the guaranteeing of an adequate income to all Canadians and this, therefore, is once again our transcendent recommendation.

FOOTNOTES

(1) Family Expenditure in Canada, 1969 (Statistics Canada).

(2) Nutrition: A National Priority (Information Canada, 1973).

(3) The Grocery Store Storybook (Self Counsel Press, 1972).

(4) Devine & Hawkins, (1972) 6 Journal of Consumer Affairs 184 at p. 187-8.

(5) Kenneth Dryden, unpublished study, McGill Law School, 1972.

(6) Economic Report on Instalment Credit & Retail Sales Practices of District of Columbia Retailers, U.S. Federal Trade Commission, 1968.

(7) Dennis & Fish, Programs in Search of a Policy: Low-Income Housing in Canada, 1972.

(8) David Zifkin, unpublished study, University of Toronto Law School, 1972.

(9) Roseman, Consumer, Beware!, (1974) at p. 223.

(10) See footnote (4).

(11) Roseman, op. cit. at p.25.

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